



Iowa Department of Transportation

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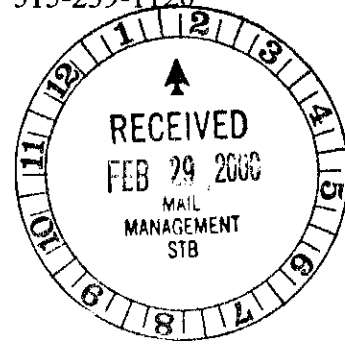
Fax: 515-239-1120

February 25, 2000

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Office of the Secretary

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Office of the Secretary
Case Control Unit
Attn: STB Ex Parte No. 582
Surface Transportation Board
1925 K Street, N.W.
Washington, D.C. 20423-0001

Re: STB Ex Parte No. 582 Public Views on Major Rail Consolidations

Comments of the Iowa Department of Transportation

In the wake of several major actions in the last five years that have concentrated market power in the hands of a few very large railroad companies, now is a good time to take stock of the present structure of the industry and to consider the role of the Surface Transportation Board in future railroad merger cases. The Iowa Department of Transportation appreciates the opportunity to participate in this public forum.

The Iowa DOT has become increasingly concerned about the availability of competitive rail service to the state as the railroad map of Iowa has changed dramatically over the past thirty years, through large-scale abandonment and the consolidation of the remaining lines with the associated spin-off of short-line and regional railroads. The concentration of Class 1 service in the state has changed the nature of access to distant markets for Iowa grain. Pricing power has also caused changes in the structure of local grain shippers as the need to ship in large volumes has stimulated the consolidation of local grain elevators. Taken together with the consolidation of major grain processors and exporters, this has shifted market power even further away from the farmer-producer. In order to restore some of the balance to these markets, the STB should view future merger cases in the broader context of this changing environment.

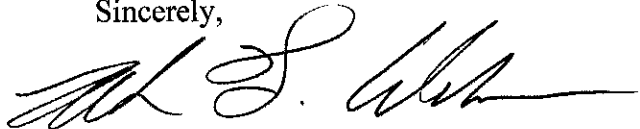
Recent mergers have been promoted by the participating carriers on the basis of increased efficiency through single-line service, access to new markets, and the diversion of highway freight to rail. These theoretical arguments have been compelling; indeed, there is clearly a great deal of potential improvement in the

movement of many kinds of freight. The promised gains, however, are yet to be seen. Even in those cases where the transition to the merged structure has been relatively uneventful, the positive impacts have been elusive. As it considers both the details and the timing of proposed mergers, the Board should hold the participants to account for past promises and predictions of new and improved service.

The relationship of the Class 1 carriers and the connecting short-line and regional railroads has also changed in light of the recent large merger cases. In many areas, local rail access is dependent on these smaller railroads. Many of them were spun off from the Class 1's with which they connect and were established with conditions that made them captive to the parent railroad. As the Class 1's have become larger and more powerful, these restrictive agreements may be a barrier to the only way to restore competitive balance. Perhaps the Board should make a detailed analysis of short-line and regional connectors to merger applicants with a view toward conditioning the merger on a relaxation of anti-competitive access and interchange restrictions.

The Iowa DOT does not oppose future rail consolidation per se. We, like the STB, must respond to each proposal on its merits. Our position, however, must also be established in the context of structural changes in related industries, the continuing performance of the participants on past promises, and the general health of the broader rail system including short-line and regional railroads. We hope the Surface Transportation Board will also take a broad view as it considers future merger cases.

Sincerely,

A handwritten signature in black ink, appearing to read 'M. F. Wandro', with a long horizontal flourish extending to the right.

Mark F. Wandro, Director
Iowa Department of Transportation

Enclosures: 10 copies
3.5 inch diskette